

Message Text

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43

ACTION AF-06

INFO OCT-01 EUR-12 EA-09 IO-10 ISO-00 AID-05 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00

XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01

FEAE-00 OES-05 /131 W

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P 221439Z SEP 75

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC PRIORITY 2758

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMEMBASSY GABORONE

USDEL MTN GENEVA

USMISSION GENEVA

AMCONSUL JOHANNESBURG

AMEMBASSY LONDON

AMEMBASSY MASERU

AMEMBASSY MBABANE

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL ZURICH

UNCLAS PRETORIA 3584

PARIS FOR OECD

E.O. 11652: N/A

TAGS: EFIN, SF

SUBJ: RAND DEVALUED

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REF: (A) PRETORIA A-165 (B)PRETORIA 3544

(C) PRETORIA 3289 (D) PRETORIA 3031
(E) PRETORIA 2420

1. FINANCE MINISTER ANNOUNCED 17.9 P/C DEVALUATION OF RAND SEPTEMBER 21 EFFECTIVE SEPTEMBER 22. RESERVE BANK "MIDDLE RATE" CHANGED FROM 1.40 TO 1.15.

2. MINISTER CITED TWO BASIC CHANGES IN ECONOMIC SITUATION SINCE JUNE 27 DEVALUATION: PERSISTENCE OF WORLD RECESSION AND FALL IN GOLD PRICE FROM AVERAGE OF \$170 IN FIRST EIGHT MONTHS OF YEAR TO \$135 ON SEPTEMBER 19. (HE HAD SAID IN JUNE THAT EXCHANGE RATE WOULD BE CHANGED ONLY IN RESPONSE TO CHANGE IN BASIC ECONOMIC SITUATION.)

3. MINISTER SAID RESERVES HAD BEEN MAINTAINED AT SATISFACTORY LEVEL BY FINANCING OF CURRENT DEFICIT WITH OFFICIAL LOANS (NO DATA GIVEN ON AMOUNTS). NET RESERVES HAVE DECLINED SUBSTANTIALLY AND SA PLANS TO DRAW ITS GOLD TRANCE (R82 MILLION) FROM THE IMF.

4. MINISTER PREDICTED DEVALUATION WOULD CURB SPECULATION AGAINST RAND, IMPROVE CURRENT ACCOUNT OF BALANCE OF PAYMENTS, IMPROVE INCOME OF GOLD MINES, STIMULATE EXPORTS, IMPROVE LOCAL PRODUCTION OF GOODS COMPETING WITH IMPORTS, STIMULATE INVESTMENT, IMPROVE TAX REVENUES.

5. TO HELP CURB INFLATIONARY EFFECTS OF DEVALUATION THE BANKS' LIQUID ASSET REQUIREMENTS WILL BE INCREASED FURTHER. (AS REPORTED REF D, THESE HAD BEEN INCREASED ON AUGUST 11.) MINISTER ALSO DECLARED GOVERNMENT'S INTENTION TO CURB PUBLIC SECTOR SPENDING, (LABELED AS IMPORTANT SOURCE OF INFLATION BY RESERVE BANK IN ITS ANNUAL REPORT RELEASED LATE AUGUST).

6. COMMENT. SERIOUSNESS OF DETERIORATION OF BALANCE OF PAYMENTS CURRENT ACCOUNT FIRST BECAME CLEAR AT TIME OF RESERVE BANK ANNUAL MEETING IN LATE AUGUST (REF C). SINCE THEN FALL IN GOLD PRICE AND POOR TRADE FIGURES (REF A) REINFORCED MARKET'S BELIEF THAT RAND OVERVALUED. SPECULATION APPARENTLY SNOWBALLED LAST WEEK, REACHING CRESCENDO ON FRIDAY, SEPTEMBER 19. SIZE OF DEVALUATION SURPRISED FINANCIAL PRESS, WHICH UNCLASSIFIED

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CALLS MOVE "SHOCK" AND "MASSIVE".

7. BOTH UP AND PREOB REFORM SPOKESMEN HAVE ATTACHED DEVALUATION AS LEADING THE FURTHER INFLATION.

8. EFFECT OF DEVALUATION ON GOLD MINING WILL BE TO RESTORE RAND EARNING OF MINES TO EQUIVALENT OF ROUGHLY \$160 PER OUNCE AT OLD

EYNHANGE RATE. ACCORDING TO PRESS RESERVE BANK HAS ALSO BEEN RECENTLY HOLDING BACK FROM MARKET ABOUT 20 P/C OF WEEKLY GOLD OUTPUT IN CONTRUT TO PREVIOUS POLICY OF SELLING ALL OF OUTPUT. HOWEVER WITH THREAT OF IMF SALES OVERHANGING MARKET THIS HAS HAD LITTLE EFFECT ON LONDON PRICE.

9 . FULL EFFECTS OF DEVALUATION DIFFICULT TO ASSESS AT THIS STAGE. COSTS OF MANUFACTURING, WHICH IS HEAVILY DEPENDENT ON IMPORTED CAPITAL GOODS AND COMPONENTS, WILL RISE SHARPLY. (AUTO MANUFACTURERS ASSOCIATION HAS ALREADY PREDICTED 10 P/C RISE IN PASSENGER CAR PRICES.) SOME EXPORT INDUSTRIES AND SOME INDUSTRIES COMPETING AGAINST IMPORTS ON LOCAL MARKET WILL OF COURSE FIND THEIR COMPETITIVE POSITION IMPROVED DESPITE INCREASED COSTS OF IMPORTEQ EQUIPMENT AND CONNONENTS, BASIC (EX-5-/) PRICES OF PETROLEUM PRODUCTS SHOULD INCREASE BY FULL AMOUNT OF DEVALUATION, PLUS WHATEVER INCREASES ARE DECIDED BY OPEC AT ITS CURRENT MEETING.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, GOLD, RAND (CURRENCY), DEVALUATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PRETOR03584
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750334-0874
From: PRETORIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750927/aaaaaxkj.tel
Line Count: 133
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 PRETORIA A-165
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 16 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 JUN 2003 by MaustMC>; APPROVED <09 FEB 2004 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RAND DEVALUED UNCLASSIFIED
TAGS: EFIN, SF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006